



STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

DOCKET NO: I-02	BOARD MEETING: December 6-7, 2011	PROJECT NO: 10-090	PROJECT COST: Original: \$233,160,352
FACILITY NAME: Centegra Hospital - Huntley		CITY: Huntley	
TYPE OF PROJECT: Substantive			HSA: VIII

PROJECT DESCRIPTION: The applicants (Centegra Hospital-Huntley and Centegra Health System) are proposing to establish a 128 bed acute care hospital in Huntley, Illinois. The total cost of the project is \$233,160,352. **The anticipated project completion date is September 30, 2016.**



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EXECUTIVE SUMMARY

PROJECT DESCRIPTION AND TIMELINE:

- The applicants (Centegra Hospital-Huntley and Centegra Health System) are proposing to establish a 128 bed acute care hospital in Huntley, Illinois. The total cost of the project is \$233,160,352. **The anticipated project completion date is September 30, 2016.**
- This project received an **Intent to Deny** at the **June 28, 2011 State Board Meeting**. Transcripts from that meeting are attached as a separate document in your packet.
- **On July 14, 2011 the State Board Staff** requested the applicants' provide the following: (Response to this request is provided as a separate Appendix to this report and is included in your packet of material)
 - **Response to the Safety Net Impact Statement Response submitted by opponents to the proposed project.**

Centegra's response: *the objecting hospitals' safety net impact statement response is fundamentally flawed because it does not account for the population growth and has not provided even the most basic calculations and data from which the claimed financial losses were allegedly derived. None of the objecting hospitals are significant providers of safety net services in McHenry County. They want the patient revenues of McHenry County to fund their own facilities in Lake, Kane and Cook counties. The Objecting Hospitals want the IHFSRB to maintain the status quo of high outmigration from McHenry County in order to benefit their hospitals in Lake, Kane, and Cook counties.*

- **Response to the 2010 McHenry County Community Health Study.**

Centegra's response: *While the McHenry County Healthy Community Study is informative, it was not and is not a document appropriately used for assessing the need for additional beds or hospital services. The lead researcher for the 2010 Study; has confirmed the study was not intended as a needs assessment for any particular type of service.*

- **Response to the decrease in the population growth in McHenry County will affect the size and the viability of the proposed hospital.**

Centegra's response: *The applicants original population projections were based upon adjusted population figures for McHenry County updated through 2010 and were not based on older projections that turned out to be overly high. The applicants used population projections from*



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Claritas that were generated using 2010 population estimates. Claritas updated its five year projections annually to reflect market and economic changes in population estimates. For example Claritas in 2008 estimated the five year compounded growth rate for McHenry County at 2.4%, adjusted it down to 2.2% in 2009 and ultimately to 1.7% in 2010. The applicants based its analysis on the more conservative 2010 estimates of compounded annual growth rates as determined by Claritas in justifying the size and viability of Centegra Hospital-Huntley.

- **On October 12, 2011 the State Board approved a revised Inventory of Health Care Facilities and Services and Need Determination.** This revision increased the bed need in the A-10 planning area from a calculated bed need of 83 medical surgical beds, 8 intensive care beds, and 27 obstetric beds by CY 2015 to 138 medical surgical beds, 18 intensive care beds, and 22 obstetric beds by CY 2018.

	Applicants' Proposed Beds	Beds Needed		
		28-Jun-11	12-Oct-11	Difference
Bed Category		CY 2015	CY 2018	CY 2018-CY 2015
Medical Surgical Beds	100	83	138	+55
Intensive Care Beds	8	8	18	+10
Obstetrics Beds	20	27	22	-5
Total	128	118	178	+60

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The project proposes the establishment of a new health care facility as required by the Act. (20 ILCS 3960)

NEED:

- To determine the need for a new hospital the applicant must address the following:
 - Is there a calculated bed need in the planning area,
 - Will the proposed new hospital provide service to the residents of the planning area,
 - Is there a demand for the new hospital,
 - Will the proposed hospital improve access, and
 - Will the proposed hospital create an unnecessary duplication of service or maldistribution?

BACKGROUND/COMPLIANCE ISSUES:

- None

PUBLIC HEARING AND COMMENTS:

- The State Board conducted a public hearing on this project February 16, 2011 and has



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received a number of letters in support and opposition. Excerpts from a number of these letters are included in the body of this report.

FINANCIAL AND ECONOMIC FEASIBILITY:

- The applicants have provided evidence of an "A-" rating from Standard and Poor's for Centegra Health System (the applicant) on the Illinois Health Facilities Authority 1998 revenue bonds and its "A-" underlying rating on the Authority's 2002 revenue bonds issued by Centegra Health System.

CONCLUSION:

- There is a calculated bed need for 138 medical surgical beds, 18 ICU beds and 22 obstetric beds in the A-10 planning area by CY 2018 according to the **most current Updated Inventory (October 21, 2011)**. Service to planning area residents and demand for the new hospital is based upon the calculated bed need and the population growth in the market area of 13% from 2010-2018. The applicants have attested that 60% of the patients for the new hospital will come from within the A-10 planning area. There is no absence of services, or access limitations due to payor status, or evidence of restrictive admission policies at existing facilities in the planning area. There are existing hospitals within 30 and 45 minutes currently operating below the State Board's target occupancy for medical surgical, obstetric and intensive care services which may result in an unnecessary duplication of service. The proposed clinical services other than categories of service will impact other area providers that are not operating at target occupancy.

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
1110.530 (b) Planning Area Need (Service Accessibility)	There are existing facilities within 45 minutes operating below target occupancy.
1110.530 (c) Unnecessary Duplication of Service/Maldistribution	There are existing facilities within 30 minutes operating below the State Board's target occupancy.
1110.3030 (a)- Clinical service areas other than categories of service	The proposed clinical services other than categories of service will impact other area providers that are not operating at target occupancy.



SUPPLEMENTAL
STATE BOARD STAFF REPORT
Centegra Hospital-Huntley
PROJECT #10-090

Applicants	Centegra Hospital-Huntley Centegra Health System
Facility Name	Centegra Hospital-Huntley
Location	Huntley
Application Received	December 29, 2010
Application Deemed Complete	January 10, 2011
Review Period Ended	May 10, 2011
Review Period Extended by the State Board Staff	Yes
Public Hearing Requested	Yes
Support and Opposition Letter Received?	Yes
Intent to Deny Received?	Yes
Applicants' Deferred Project	No
Can Applicants Request Another Deferral?	No
Applicants' Modified the Project	No

I. The Proposed Project

The applicants are proposing the establishment of a 128 bed acute care hospital in Huntley, Illinois. The total cost of the project is \$233,160,352.

II. Summary of Findings

- A. The State Board Staff finds the proposed project does not appear to be in conformance with the provisions of Part 1110.
- B. The State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1120.

III. General Information

The applicants are Centegra Hospital-Huntley and Centegra Health System. Centegra Health System is the parent corporation. The facility will be located at the East Side of Haligus Road between Algonquin Road and Reed Road. The operating entity licensee is Centegra Hospital-Huntley and the owner of the site is NIMED Corporation a subsidiary of Centegra Health System. The facility will be located in the HSA VIII service area and the A-10 hospital planning area. The A-10 planning area consists of McHenry County. There are three additional hospitals in the A-10 hospital planning area. These hospitals are Harvard Mercy Memorial-Harvard (owned by Mercy Alliance, Inc.), Centegra Hospital - Woodstock, Centegra Specialty Hospital-Woodstock and Centegra Hospital-



McHenry; all owned by Centegra Health System. Centegra Specialty Hospital has a 40 bed long term care category of service, and 36 bed acute mental illness category of service and a Stand-By Emergency Department. **Centegra Specialty Hospital will not be considered in the evaluation of this project.** No other services are provided at this hospital. The October 2011 Update to the Inventory of Health Care Facilities and Services and Need Determination shows a calculated bed need for 138 medical surgical beds, 18 intensive care beds, and 22 obstetric beds in the A-10 planning area by CY 2018. **Table One** below outlines the number of facilities within 30 minutes (adjusted per 77 IAC 1100.510 (d)). There are two facilities located within the A-10 planning area and within 30 minutes of the proposed site; Centegra Hospital - McHenry, and Centegra Hospital - Woodstock and two facilities located in the A-11 planning area within 30 minutes: Sherman Hospital and Provena St. Joseph Hospital. There is one additional facility within 30 minutes Advocate Good Shepherd Hospital located in the A-09 planning area. **The State Board's target occupancy** to add medical surgical ("M/S") beds is 80% for a M/S bed complement of 0-99 beds, 85% for a M/S bed complement of 100-199 beds, and 90% for a M/S bed complement of 200 beds and over. To add intensive care beds the State Board's target occupancy is 60% no matter the number of beds, and for obstetric beds ("OB") the target occupancy is 60% for OB beds of 1-10 beds, 75% for OB beds of 11-25 beds, and 78% for OB beds of 26 beds and over.

TABLE ONE

Facilities within 30 minutes of the proposed site

Facility Name	City	Minutes Adjusted	Miles	Planning Area	2010 Number of Beds			2010 Bed Occupancy		
					M/S	ICU	OB	M/S %	ICU %	OB %
Centegra Hospital - Woodstock	Woodstock	16	11.26	A-10	60	12	14	83.5%	77.3%	53.4%
Sherman Hospital	Elgin	20	15.11	A-11	189	30	28	63.8%	55.8%	70.0%
Provena Saint Joseph Hospital	Elgin	24	13.9	A-11	99	15	0	71.1%	60.4%	0.0%
Centegra Hospital McHenry	McHenry	25	17.83	A-10	129	18	19	74.1%	91.8%	40.0%
Advocate Good Shepherd	Barrington	28	16.61	A-09	113	18	24	81.6%	84.7%	50.2%

*Time and Distance based on MapQuest and adjusted per 77 IAC 1100.510 (d) by 1.15X
 Bed and Utilization information taken for IDPH 2010 Hospital Questionnaire

The project proposes the following bed categories:

TABLE TWO	
Centegra Hospital - Huntley	
Category	Beds
Medical Surgical	100
Intensive Care	8



TABLE TWO	
Centegra Hospital - Huntley	
Category	Beds
Obstetrics	20
Total	128

The project is a substantive project and subject to Part 1110 and Part 1120 review. Project obligation will occur after permit approval. **The anticipated project completion date is September 30, 2016.**

Support and Opposition Comments

The State Board conducted a public hearing on this project February 16, 2011. 153 individuals did not provide testimony, 134 individuals spoke in support of the project, and 85 individuals spoke in opposition. Below is a sample of comments in support and opposition to this project.

Peggy Troy, CEO, Children's Hospital & Health System stated *Children's Hospital and Centegra Health System have collaborated in the best interest of patients by entering into an agreement for transfer of pediatric patients between respective institutions. This has allowed me to see the level of commitment that Centegra has to the community it serves. Based upon my observations and interactions, Centegra's proposal to construct a new hospital in Huntley is only the latest example of its commitment.*

Christa Gehard, Lake in the Hills stated *I know Centegra Health System takes its responsibility to the community very seriously and continues to look for ways to improve the care it provides. Centegra has long been committed to Huntley and the surrounding communities through outpatient services and other health services that have already been brought to the area. Centegra purchased the land in Huntley several years ago and has created a strong, long term plan for responsible development of that site. I personally appreciate that, along with needed healthcare services, this project will bring new jobs and tax revenue to the Huntley community. Given the community's need for hospital services and improved access to healthcare this project will provide for southern McHenry County and surrounding areas, I strongly urge the Board to approve the application by Centegra Health System for a new hospital in Huntley.*

Kevin J. Rynders Algonquin-Lake in the Hills Fire Protection District stated *"I support Project #10-090 and Centegra Health System's proposal to bring a new hospital to southern McHenry County. Huntley and the surrounding communities make up one of the fastest growing areas not only in the McHenry County, but in the entire State. Based on this I believe there is a need for a full-service hospital in this area."*

Milford Brown, President, Huntley Board of Trustees stated *The Huntley Fire Protection District fully supports Project #10-090, and Centegra Health System's proposal to bring a new hospital in southern McHenry County. The need for a full-*



service hospital is warranted. Huntley and the surrounding communities make up one of the fastest growing areas not only in McHenry County, but in the entire State. These communities are currently underserved by health care facilities, leaving local residents and workers with significant travel times to existing area hospitals

Kathleen Boyle, Owner, Century Tile, Lombard stated *Centegra has demonstrated its investment in the communities it serves by providing quality healthcare to anyone who needs it without concern for ability to pay, jobs for 3,700 employees, and key support for a number of vital programs that assist the county's neediest residents. This organization has shown foresight in evolving its services and access to those services, so that when a need is identified, Centegra is ready and able to address that need. A health system that is rooted in the community, supportive of local charities and programs, and that plans ahead to address community needs is the right system to build and operate the new proposed hospital. Centegra is that system.*

William Petasnick, President, Froedert Health, Inc. stated *The collaboration between Froedert and Centegra, in the form of transfer agreements and educational programs has allowed us to see first hand the level of commitment that Centegra has to the community. Centegra's proposal to construct a new hospital in Huntley is only the latest example of that commitment.*

Andrew Ward Algonquin Road Surgery Center stated *"I am here today to urge the Illinois Health Facilities and Services Review Board to reject Centegra's certificate of need application for a hospital in Huntley. In fact many of the arguments you will hear or have heard today in opposition to Centegra's proposal are the very same arguments Centegra used in 2004 and 2007 to oppose similar projects in the area. How times have changed."*

Claudia Lawson Sherman Health stated *"I am here today to oppose Centegra's proposal to build a limited service hospital in Huntley because I believe this area already has a strong network of inpatient facilities immediate care and other outpatient facilities and doctor's offices."*

Marilyn Parenzan Advocate Good Shepherd Hospital stated *"this proposed hospital will dilute volumes among hospitals that will negatively impact patient quality and patient safety. This proposed hospital will add nearly 50% more beds to McHenry County. As you know this hospital is located less than one mile away from McHenry County. There is little doubt that adding another hospital with that many beds in the region will negatively impact the volumes of area hospitals and may impact quality of care.*

Dr. Giangrosso Advocate Good Shepherd Hospital stated *"existing hospitals in the area have more than enough capacity to serve emergency needs of McHenry County residents. Last year Good Shepherd was able to serve additional emergency patients*



99.9% of the time. This means that we were rarely on bypass and for only 5 hours all year had to direct ambulances to other hospitals due to capacity constraints in the emergency department."

Joe Ourth, Legal Counsel, Arnstein & Lehr filed a Safety Net Impact Response Statement. He stated for Centegra to state that a new hospital "will not impact other hospitals" is simply incorrect. In response, Sherman, Good Shepherd, and St. Alexius hospitals commissioned Krentz Consulting to quantify the impact of new Huntley hospital and the Concerned Hospitals' ability to provide safety net services to their communities. The result is that net revenue for existing area hospitals would decrease by \$116 million annually and combined contribution margin by \$39 million (dollars). These losses severely impact the ability of Concerned Hospitals to continue to provide Safety Net Services.

Kenneth Grubb, Crystal Lake, stated I've lived in Crystal Lake almost 30 years and I do not believe there is a need for another hospital in our region. Today, the people in southern McHenry County are no more than a 15-minute drive to one of our three hospitals. These include Good Sheppard in Barrington, Centegra in Woodstock, and Sherman Hospital in Elgin. These are each fine hospitals, so there is no lack of easy access or excellent medical care.

Mary Jo Olszewski, Woodstock stated I consider Advocate Good Shepherd and the other hospitals in our region a tremendous asset to the area. Good Shepherd offers a variety of health care services and wellness programs and I always receive outstanding care there. Now is the time for Good Shepherd and other area hospitals to think about adding services at their current facilities. Now is NOT the time to be proposing a new, unnecessary hospital in McHenry County. I ask members of the Review Board to do the right thing and vote no on this project.

David Nelson, Supervisor, Cuba Township stated I am also concerned about our existing hospitals. Taking volume from area hospitals will damage hospitals such as Good Shepherd, Sherman, St.Alexius, and Centergra's own hospitals in Woodstock and McHenry. With reduced volume, I am concerned that the existing hospitals will not have adequate patient volume to provide high quality cost-effective care. Also, the existing area hospitals provide charity care and community benefit services. I wonder how the hospitals will be able to fund the services for the indigent and community if the hospitals are operating on only razor thin financial margins due to reduced volume.

IV. The Proposed Project - Details

The applicants propose to establish a 128 bed hospital in a total of 384,135 gross square feet ("GSF") at a total estimated project cost of \$233,160,352. Categories of services being provided at the proposed hospital include medical surgical, intensive care and obstetric services. Other clinical services being provided are general radiology flourosocopy, X-Ray, mammography, ultrasound, CT Scan,



MRI, Nuclear Medicine, 8 room surgical suite, recovery stations, and an emergency department.

V. Project Costs and Sources of Funds

The project will be funded with cash and securities of \$48,010,352, a bond issue of \$183,000,000 and lease of capital equipment of \$2,150,000. A complete itemization of the cost detailed in Table Three can be found at pages 62-63 of the application for permit. The estimated start-up costs and operating deficit is \$13,224,000.

TABLE THREE Project Costs and Sources of Funds			
Use of Funds	Clinical	Non Clinical	Total
Preplanning	\$1,729,015	\$1,205,985	\$2,935,000
Site Survey and Soil Investigation	\$41,849	\$43,151	\$85,000
Site Preparation	\$1,028,988	\$1,061,012	\$2,090,000
OffSite Work	\$5,356,644	\$5,523,356	\$10,880,000
New Construction Contracts	\$68,851,517	\$57,881,296	\$126,732,813
Contingencies	\$6,540,894	\$5,498,723	\$12,039,617
Architectural and Engineering Fees	\$4,045,356	\$3,400,804	\$7,446,160
Consulting and Other Fees	\$3,972,992	\$3,751,737	\$7,724,729
Movable of Other Equipment	\$24,170,213	\$6,064,753	\$30,234,966
Bond Insurance Expense	\$1,477,016	\$1,522,984	\$3,000,000
Net Interest Expense	\$13,514,695	\$13,935,305	\$27,450,000
FMV of Leased Equipment	\$2,150,000	\$0	\$2,150,000
Other Costs to be Capitalized	\$193,030	\$199,037	\$392,067
Total Project Costs	\$133,072,209	\$100,088,143	\$233,160,352
Sources of Funds			
Cash and Securities	\$40,824,172	\$7,186,180	\$48,010,352
Bond Issues	\$90,098,037	\$92,901,963	\$183,000,000
Leases	\$2,150,000	\$0	\$2,150,000
Total Sources of Funds	\$133,072,209	\$100,088,143	\$233,160,352

VI. Cost Space Requirements

The hospital comprises a total of 384,135 gross square feet. Only the clinical cost and clinical GSF footage will be reviewed per 20 ILCS 3960/5.



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TABLE FOUR Clinical GSF				
Department	New Construction		Department	New Construction
CLINICAL			NON CLINICAL	
Medical Surgical	59,112		Admitting Registration	2,412
Intensive Care	5,415		Administration	9,734
Obstetrics	13,071		Social Services	1,768
Surgery	21,525		Quality Management	1,013
Post Anesthesia Recovery	1,382		Facilities Management	3,616
Surgical Prep (Stage 2 Recovery)	12,717		Central On Call Rooms	1,500
Endoscopy	2,175		Conference Rooms -Education	10,535
Emergency Department	10,431		Family Support Services	18,482
Diagnostic Imaging	10,785		Housekeeping	3,275
LDR Suite	9,445		Information Systems	6,962
C-Section Suite	4,026		Gift Shop	1,163
Newborn Nurseries	3,167		Mail Room	156
Inpatient PT/OT	1,204		Materials Management	9,529
Non Invasive Diagnostic (Neurodiagnostic, Pulmonary Function Testing)	7,830		Mechanical Space	65,000
Respiratory Therapy	2,772		Medical Records	1,500
Pre Admission	1,428		Serving and Dining Rooms	6,604
Inpatient Acute Dialysis	1,904		Biomedical Engineering	500
Clinical Laboratory	3,720		Pastoral Care	1,020
Pharmacy	4,844		Physician Services	5,652
Central Sterile Supply	5,256		Security	348
Dietary	6,916		Staff Support Services	2,386
Total Clinical	189,125		Volunteers	420
Total	384,135		Entrances Lobbies	15,763
			Interdepartmental Circulation	11,946
			Stairs	5,808
			Elevators/Shfts/ Elevators	7,918
			Total Non Clinical	195,010

VII. Safety Net Impact Statement

The Health Facilities Planning Act stipulates that applicants for a new facility must provide Safety Net impact information.

TABLE FIVE
Centegra Hospital - McHenry, Centegra Hospital-Woodstock and Centegra Specialty Hospital
Safety Net Information per PA 96-0031



TABLE FIVE			
Centegra Hospital - McHenry, Centegra Hospital-Woodstock and Centegra Specialty Hospital			
Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	FY 2007	FY 2008	FY 2009
Inpatient	364	377	435
Outpatient	1,228	1,464	1,810
Total	1,592	1,841	2,245
Charity (cost in dollars)			
Inpatient	\$2,863,329	\$2,040,983	\$2,521,623
Outpatient	\$938,459	\$903,530	\$1,449,166
Total	\$3,801,788	\$2,944,513	\$3,970,789
MEDICAID			
Medicaid (# of patients)			
Inpatient	2,407	2,369	2,445
Outpatient	24,070	26,329	31,525
Total	26,477	28,698	33,970
Medicaid (revenue)			
Inpatient	\$9,458,502	\$7,745,806	\$18,037,202
Outpatient	\$22,475,574	\$13,009,516	\$7,502,869
Total	\$31,934,076	\$20,755,322	\$25,540,071

TABLE SIX		
Projected Payor Mix		
Projected Payor Mix	FY 2017	FY 2018
Medicare	36.60%	37.70%
Medicaid	9.40%	9.50%
Other Public	0.00%	0.00%
Private Insurance	52.00%	50.70%
Private Pay	0.30%	0.40%
Charity Care	1.70%	1.70%
	100.00%	100.00%
Projected Net Patient Revenue	\$192,624,000	\$254,309,000
Projected Charity Care Expense	\$3,642,000	\$4,910,000
Projected Ratio of Charity Care to Net Patient Revenue	1.89%	1.93%

VIII. Section 1110.230 - Project Purpose, Background and Alternatives

A) Criterion 1110.230 (a) - Background of Applicant



An applicant must demonstrate that it is fit, willing and able, and has the qualifications, background and character, to adequately provide a proper standard of health care service for the community.

The applicants own three hospitals in Illinois; Centegra Hospital – McHenry and Centegra Hospital-Woodstock and Centegra Specialty Hospital- Woodstock, South Street. In addition the applicants own a number of ambulatory care facilities and medical office buildings in Illinois. The applicants provided a list of all facilities currently owned by the applicants, and an attestation that no adverse actions (as defined by the State Board) have been taken against the applicants in the past three calendar years.

B) Criterion 1110.230 (b) - Purpose of the Project

The applicant shall document that the project will provide health services that improve the health care or well-being of the market area population to be served. The applicant shall define the planning area or market area, or other, per the applicant's definition.

1) The applicant shall address the purpose of the project, i.e., identify the issues or problems that the project is proposing to address or solve. Information to be provided shall include, but is not limited to, identification of existing problems or issues that need to be addressed, as applicable and appropriate for the project. Examples of such information include:

- A) The area's demographics or characteristics (e.g., rapid area growth rate, increased aging population, higher or lower fertility rates) that may affect the need for services in the future;**
- B) The population's morbidity or mortality rates;**
- C) The incidence of various diseases in the area;**
- D) The population's financial ability to access health care (e.g., financial hardship, increased number of charity care patients, changes in the area population's insurance or managed care status);**
- E) The physical accessibility to necessary health care (e.g., new highways, other changes in roadways, changes in bus/train routes or changes in housing developments).**



- 2) **The applicant shall cite the source of the information (e.g., local health department Illinois Project for Local Assessment of Need (IPLAN) documents, Public Health Futures, local mental health plans, or other health assessment studies from governmental or academic and/or other independent sources).**
- 3) **The applicant shall detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being. Further, the applicant shall provide goals with quantified and measurable objectives with specific time frames that relate to achieving the stated goals.**
- 4) **For projects involving modernization, the applicant shall describe the conditions being upgraded. For facility projects, the applicant shall include statements of age and condition and any regulatory citations. For equipment being replaced, the applicant shall also include repair and maintenance records.**

The purpose of the project is

- To address the calculated bed need in the A-10 and A-11 planning areas;
- To address the outmigration of patients from the A-10 planning area;
- To address the increase in population in the A-10 planning area (McHenry County) by 2018;
- To address the market areas that has been identified by the U. S Department of Human Services as Medically Underserved and Health Manpower Shortage Areas.

The applicants believe the population in McHenry County will increase by 8% from 2015-2020. With this increase the applicants believe there will sufficient bed need to justify 104 medical surgical beds by 2018 the second year after project completion. The market area for this facility is 16 zip codes which are located in McHenry County and in adjacent towns in Kane, Lake, Cook, and Dekalb Counties. The market area for this hospital is based upon the patient origin data derived from the Centegra Ambulatory Center located on the same site of the proposed hospital. See pages 101-112 of the application for permit for a complete discussion of the purpose of the project.

C) Criterion 1110.234 (c) - Alternatives to the Proposed Project



The applicant shall document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

- 1) Alternative options shall be addressed. Examples of alternative options include:**
 - A) Proposing a project of greater or lesser scope and cost;**
 - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;**
 - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and**
 - D) Other considerations.**
- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of cost, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long term. This may vary by project or situation.**
- 3) The applicant shall provide empirical evidence, including quantified outcome data, that verifies improved quality of care, as available**

1. Modernize Memorial Medical Center-Woodstock

This alternative was originally approved by the State Board as Project #08-002 and subsequently abandoned by the applicant. This project proposed to construct a women's pavilion and modernized existing space in the hospital and add 14 M/S beds and 6 OB beds. **Capital Costs \$52,201,702.**

2. Modernize Centegra Hospital-McHenry and Centegra Hospital - Woodstock

This alternative proposed to add 100 Medical Surgical Beds (40 beds at McHenry and 60 Beds at Woodstock), addition of 8 ICU beds (6 at



McHenry and 2 at Woodstock) and 20 Obstetric beds (6 at McHenry and 14 at Woodstock). This alternative was rejected because it would not assure the efficient distribution of beds in the planning area, would be approximately the same cost as a new hospital, and an imprudent use of capital resources to add high cost addition to aging facilities. **Capital Costs \$206,572,661.**

IX. Section 1110.234 - Project Scope and Size, Utilization and Unfinished/Shell Space

A) Criterion 1110.234(a) - Size of Project

- 1) The applicant shall document that the physical space proposed for the project is necessary and appropriate. The proposed square footage (SF) cannot deviate from the SF range indicated in Appendix B, or exceed the SF standard in Appendix B if the standard is a single number, unless SF can be justified by documenting, as described in subsection (a)(2).

The applicants have met the State Standards for all clinical departments/ services in which the State Board has size standards.

TABLE SIX					
Size of Project compared to State Standards					
Department	Number of Beds/ Unit	Proposed GSF	State Standard	Per Unit	Met Standard?
Medical Surgical	100 Beds	59,112	500-660 DGSF	591 DGSF	Yes
Intensive Care	8 Beds	5,415	600-685 DGSF	677 DGSF	Yes
Obstetrics	20 Beds	13,071	500-660 DGSF	654 DGSF	Yes
Surgery	8 OR's	21,525	2,750 DGSF/room	2,690 DGSF	NA
Recovery	8 Rooms	1,382	180 DGSF/station	173 DGSF	Yes
Surgical Prep/Stage 2 recovery	32 Rooms	12,717	400 DGSF/station	397 DGSF	Yes
Endoscopy	2 Rooms	2,175	1,100 DGSF	1,088 DGSF	Yes
Emergency Department	13 Stations	10,431	900 DGSF	802 DGSF	Yes
Diagnostic Imaging		10,785			Yes
General Radiology	2 Rooms		1,300 DGSF Unit	2,600 DGSF	Yes
Radiology and Fluoroscopy	1 Room		1,300 DGSF/Unit	1,300 DGSF	Yes
Ultrasound	2 Rooms		900 DGSF/Unit	1,800 DGSF	Yes
CT Scanning	1 Room		1,800 DGSF/Unit	1,800 DGSF	Yes
MRI	1 Room		1,800 DGSF/Unit	1,800 DGSF	Yes



TABLE SIX Size of Project compared to State Standards					
Department	Number of Beds/ Unit	Proposed GSF	State Standard	Per Unit	Met Standard?
Nuclear Medicine	1 Room		1,600 DGSF/Unit	1,600 DGSF	Yes
Labor Delivery Recovery	6 Rooms	9,445	1,120-1,600 DGSF/Room	1,574 DGSF	Yes
C-Section Suite	2 Rooms	4,026	2,075 OR	2,013 DGSF	Yes
Newborn Nursery	14 Stations	3,167	160 DGSF/OB Bed	158 DGSF	Yes

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE SIZE OF THE PROJECT - REVIEW CRITERION (77 IAC 1110.234(a)).

B) Criterion 1110.234 (b) - Project Services Utilization

The applicant shall document that, by the end of the second year of operation, the annual utilization of the clinical service areas or equipment shall meet or exceed the utilization standards specified in Appendix B.

The applicants have successfully addressed the projected utilization for services departments proposed by this project.

TABLE SEVEN Projected utilization of Proposed facility					
Department	State Board Standard	2018 Projected Number of Days/Hours	Number of Beds/Rooms Justified	Number of Beds Proposed/Units	Met Standard?
Medical Surgical	85% occupancy	34,867 days	113	100	Yes
Intensive Care	60% occupancy	2,850 days	13	8	Yes
Obstetrics	75% occupancy	5,647 days	21	20	Yes
Surgery	1,500 Hours per room	11,169 hours	8	8	Yes
Recovery	NA	NA	8	8	Yes
Surgical Prep Stage Recovery	NA	NA	32	32	Yes
Endoscopy	1,500 Hours/ room	2,899	2	2	Yes
Emergency Department	2,000 Visits/ room	30,586	16	13	Yes
Diagnostic Imaging					Yes
General Radiology	8,000 proc/room	9,571	2	2	Yes
Radiology and Fluoroscopy	6,500 proc/room	14,904	2	1	Yes
Ultrasound	3,100 visits/unit	3,709	2	2	Yes



TABLE SEVEN					
Projected utilization of Proposed facility					
Department	State Board Standard	2018 Projected Number of Days/Hours	Number of Beds/Rooms Justified	Number of Beds Proposed/Units	Met Standard?
CT Scanning	7,000 visits/unit	4,187	1	1	Yes
MRI	2,500/proc/unit	2,743	2	1	Yes
Nuclear Medicine	2,000 Visits/room	988	1	1	Yes
Labor Delivery Recovery	400 births/LDR	2,022	6	6	Yes
C-Section Suite	800 proc/room	819	2	2	Yes
Newborn Nursery	NA	NA	NA	14 Stations	Yes

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH PROJECT UTILIZATION - REVIEW CRITERION (77 IAC 1110.234(b)).

- C) Criterion 1110.234 (c) - Size of the Project and Utilization:**
For clinical service areas for which norms are not listed in Appendix B (for example, central sterile supply, laboratory, occupational therapy, pharmacy, physical therapy, respiratory therapy, cardiac rehabilitation, speech pathology and audiology), the applicant shall document that the proposed departmental gross square footage is necessary and appropriate.

As a basis for the determining departmental gross square footage for areas in which norms are not listed in Appendix B of the State Board's rules the applicants relied upon IDPH 77 ILL Administrative Code 250.2440 General Hospital Standards and the AIA (American Institute of Architects) Guidelines for Construction and Design of Health Care Facilities -2006 Edition. The applicants have met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH SIZE OF THE PROJECT AND UTILIZATION - REVIEW CRITERION (77 IAC 1110.234(c)).

- D) Criterion 1110.234(e) - Assurances**
The applicant shall submit the following:

- 1) The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the end of the second year of**



operation after the project completion, the applicant will meet or exceed the utilization standards specified in Appendix B.

The applicants have attested that by the second year after project completion that they will be at target occupancy.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ASSURANCES - REVIEW CRITERION (77 IAC 1110.234(c)).

X. Section 1110.530 - Medical/Surgical, Obstetric, Pediatric and Intensive Care – Review Criteria

A) Criterion 1110.530 (b) - Planning Area Need

The applicant shall document that the number of beds to be established or added is necessary to serve the planning area's population, based on the following:

1) 77 Ill. Adm. Code 1100 (formula calculation)

A) The number of beds to be established for each category of service is in conformance with the projected bed deficit specified in 77 Ill. Adm. Code 1100, as reflected in the latest updates to the Inventory.

B) The number of beds proposed shall not exceed the number of the projected deficit, to meet the health care needs of the population served, in compliance with the occupancy standard specified in 77 Ill. Adm. Code 1100.

2) Service to Planning Area Residents

A) Applicants proposing to establish or add beds shall document that the primary purpose of the project will be to provide necessary health care to the residents of the area in which the proposed project will be physically located (i.e., the planning or geographical service area, as applicable), for each category of service included in the project.

3) Service Demand – Establishment of Bed Category of Service

The number of beds proposed to establish a new category of service is necessary to accommodate the service demand experienced annually by the existing applicant facility over the



latest two-year period, as evidenced by historical and projected referrals, or, if the applicant proposes to establish a new hospital, the applicant shall submit projected referrals. The applicant shall document subsection (b)(3)(A) and either subsection (b)(3)(B) or (C):

C) Project Service Demand – Based on Rapid Population Growth

If a projected demand for service is based upon rapid population growth in the applicant facility's existing market area (as experienced annually within the latest 24-month period), the projected service demand shall be determined as follows:

- i) The applicant shall define the facility's market area based upon historical patient origin data by zip code or census tract;
- ii) Population projections shall be produced, using, as a base, the population census or estimate for the most recent year, for county, incorporated place, township or community area, by the U.S. Census Bureau or IDPH;
- iii) Projections shall be for a maximum period of 10 years from the date the application is submitted;
- iv) Historical data used to calculate projections shall be for a number of years no less than the number of years projected;
- v) Projections shall contain documentation of population changes in terms of births, deaths, and net migration for a period of time equal to, or in excess of, the projection horizon;
- vi) Projections shall be for total population and specified age groups for the applicant's market area, as defined by HFPB, for each category of service in the application; and
- vii) Documentation on projection methodology, data sources, assumptions and special adjustments shall be submitted to HFPB



5) Service Accessibility

The number of beds being established or added for each category of service is necessary to improve access for planning area residents. The applicant shall document the following:

A) Service Restrictions

The applicant shall document that at least one of the following factors exists in the planning area:

- i) The absence of the proposed service within the planning area;
- ii) Access limitations due to payor status of patients, including, but not limited to, individuals with health care coverage through Medicare, Medicaid, managed care or charity care;
- iii) Restrictive admission policies of existing providers;
- iv) The area population and existing care system exhibit indicators of medical care problems, such as an average family income level below the State average poverty level, high infant mortality, or designation by the Secretary of Health and Human Services as a Health Professional Shortage Area, a Medically Underserved Area, or a Medically Underserved Population;
- v) For purposes of this subsection (b)(5) only, all services within the 45-minute normal travel time meet or exceed the utilization standard specified in 77 Ill. Adm. Code 1100.

The applicants justify the number of beds being proposed based upon the calculated bed need identified in the Update Inventory of Health Care Facilities and Services Need Determination October 2011 and the rapid population growth in the planning and market areas. The number of medical surgical beds, ICU and obstetric beds being proposed fall within the current number of calculated beds needed in the A-10 planning area.

Planning Area Need



The October 2011 Update to the Inventory of Health Care Facilities and Services and Need Determination shows a calculated need for 138 medical surgical beds, 18 intensive care beds, and 27 obstetric beds in the A-10 planning area. The applicants are proposing 100 medical surgical beds, 8 intensive care beds, and 20 obstetric beds. The number of beds requested by the applicants has met the planning area's need requirement.

TABLE SEVEN Inventory of Health Care Facilities and Services and Need Determination					
Bed Category	Approved Beds	Calculated Beds Needed 2018	Need	Number requested by applicants	Calculated Need
Medical Surgical	206	344	138	100	(38)
Intensive Care	33	51	18	8	(10)
Obstetrics	33	55	22	20	(2)

Service to Planning Area Residents

The applicants proposed hospital will be located in McHenry County and the applicants are projecting that more than 60% of the patients will come from McHenry County by 2018 the second year after project completion.

Service Demand

The market area for the proposed hospital is primarily located within Planning Area-10. The applicants provided a Market Assessment and Impact Study prepared by Deloitte and Touche Financial Advisory Services that identified population growth by zip code. The applicants concluded that the population in the market area is expected to increase by 13% from 2010 to mid 2018 with the population in the primary market area increasing by 15% from 2010 and the secondary market area by 9%. Using this information the applicants calculated an adjusted bed need for 104 medical surgical beds in this planning area by mid- 2018. **The State Board Staff notes that there is a calculated need for 138 medical surgical beds in this planning area by 2018.**

Service Accessibility

There is no absence of services within this planning area, nor access limitations due to payor status, or evidence of restrictive admission policies at existing facilities in the planning area. The applicants provided evidence of 3 census tracts within Planning Area A-10 that have been designated as a Medically Underserved Population, 1 census tract in the primary service area as designated Medically Underserved



Area/Population, four townships in the market area designated as Health Manpower Shortage Areas. Planning Area's A-10 and A-11 have the second and third highest Bed Need of all planning areas in the State of Illinois and are 2 of the 4 planning areas with a bed need. However, there are existing facilities within 45 minutes that are operating below the State Board's target occupancy for medical surgical, intensive care and obstetric beds.

TABLE EIGHT Facilities within 45 minutes of proposed hospital								
NAME	CITY	Adjusted Time	MS Beds	ICU Beds	OB Beds	MS %	ICU %	OB %
Centegra Hospital - Woodstock	Woodstock	16	60	12	14	83.50%	77.30%	53.40%
Provena Saint Joseph Hospital	Elgin	20	99	15	0	71.10%	60.4%	0.00%
Sherman Hospital	Elgin	24	189	30	28	63.80%	55.80%	70.00%
Centegra Hospital - McHenry	McHenry	25	129	18	19	74.10%	91.80%	40.00%
Advocate Good Shepherd Hospital	Barrington	28	113	18	24	81.60%	84.70%	50.20%
St. Alexius Medical Center	Hoffman Estates	31	212	35	38	71.00%	57.00%	62.10%
Delnor Community Hospital	Geneva	36	121	20	18	56.50%	67.80%	69.50%
Mercy Harvard Memorial Hospital	Harvard	37	17	3	0	27.50%	9.50%	0.00%
Kishwaukee Community Hospital	DeKalb	40	70	12	12	72.70%	26.90%	61.70%
Alexian Brothers Medical Center	Elk Grove Villa	43	241	36	28	82.70%	71.50%	72.70%
Northwest Community Hospital	Arlington Hts.	44	336	60	44	61.30%	50.90%	55.00%
*Time and Distance based on MapQuest and adjusted per 77 IAC 1100.510 (d) by 1.15X Bed and Utilization information taken for IDPH 2010 Hospital Questionnaire								

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE NEED FOR THE PROJECT - REVIEW CRITERION (77 IAC 1110.530(b)).

B) Criterion 1110.530 (c) - Unnecessary Duplication/Maldistribution

- 1) The applicant shall document that the project will not result in an unnecessary duplication. The applicant shall provide the following information:
 - A) A list of all zip code areas that are located, in total or in part, within 30 minutes normal travel time of the project's site;
 - B) The total population of the identified zip code areas (based upon the most recent population numbers available for the State of Illinois); and



- C) The names and locations of all existing or approved health care facilities located within 30 minutes normal travel time from the project site that provide the categories of bed service that are proposed by the project.
- 2) The applicant shall document that the project will not result in maldistribution of services. Maldistribution exists when the identified area (within the planning area) has an excess supply of facilities, beds and services characterized by such factors as, but not limited to:
 - A) A ratio of beds to population that exceeds one and one-half times the State average;
 - B) Historical utilization (for the latest 12-month period prior to submission of the application) for existing facilities and services that is below the occupancy standard established pursuant to 77 Ill. Adm. Code 1100; or
 - C) Insufficient population to provide the volume or caseload necessary to utilize the services proposed by the project at or above occupancy standards.
- 3) The applicant shall document that, within 24 months after project completion, the proposed project:
 - A) Will not lower the utilization of other area providers below the occupancy standards specified in 77 Ill. Adm. Code 1100; and
 - B) Will not lower, to a further extent, the utilization of other area hospitals that are currently (during the latest 12-month period) operating below the occupancy standards.

The bed to population ratio in A-10 was provided as required and all facilities within 30 minutes were identified. There are existing facilities within the planning area and within 30 minutes of the proposed site that are below the State Board's target occupancy. The applicants state *that because of the population growth projections and the aging population the establishment of Centegra Hospital- Huntley will not impact other area providers.* Existing hospitals within 30 minutes are not at target occupancy; therefore it would appear that the proposed hospital would impact other area providers. The applicants have not met the requirements of this criterion.



TABLE NINE

Facilities within 30 minutes of the proposed site

Facility Name	City	Minutes Adjusted	Miles	Planning Area	2010 Number of Beds			2010 Bed Occupancy		
					M/S	ICU	OB	M/S %	ICU %	OB %
Centegra Hospital - Woodstock	Woodstock	16	11.26	A-10	60	12	14	83.5%	77.3%	53.4%
Sherman Hospital	Elgin	20	15.11	A-11	189	30	28	63.8%	55.8%	70.0%
Provena Saint Joseph Hospital	Elgin	24	13.9	A-11	99	15	0	71.1%	60.4%	0.0%
Centegra Hospital McHenry	McHenry	25	17.83	A-10	129	18	19	74.1%	91.8%	40.0%
Advocate Good Shepherd	Barrington	28	16.61	A-09	113	18	24	81.6%	84.7%	50.2%

*Time and Distance based on MapQuest and adjusted per 77 IAC 1100.510 (d) by 1.15X
 Bed and Utilization information taken for IDPH 2010 Hospital Questionnaire

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE UNNECESSARY DUPLICATION/MALDISTRIBUTION REQUIREMENTS OF PROJECT - REVIEW CRITERION (77 IAC 1110.530(d)).

C) Criterion 1110.530 (e) - Staffing Availability

The applicant shall document that relevant clinical and professional staffing needs for the proposed project were considered and that licensure and JCAHO staffing requirements can be met. In addition, the applicant shall document that necessary staffing is available by providing letters of interest from prospective staff members, completed applications for employment, or a narrative explanation of how the proposed staffing will be achieved.

The applicants have provided a narrative at **pages 293-296 of the application** for permit that indicates that a sufficient workforce will be available once the hospital becomes operational by 2015.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE STAFFING REQUIREMENTS OF PROJECT - REVIEW CRITERION (77 IAC 1110.530(e)).

D) Criterion 1110.530 (f) - Performance Requirements

1) Medical-Surgical



The minimum bed capacity for a medical-surgical category of service within a Metropolitan Statistical Area (MSA) is 100 beds.

2) Obstetrics

A) The minimum unit size for a new obstetric unit within an MSA is 20 beds.

B) The minimum unit size for a new obstetric unit outside an MSA is 4 beds.

3) Intensive Care

The minimum unit size for an intensive care unit is 4 beds.

4) Pediatrics

The minimum size for a pediatric unit within an MSA is 4 beds.

The applicants are proposing a medical surgical bed capacity of 100 beds, 20 obstetric beds and 8 intensive care beds. The applicants have met the requirements of this criterion. **See page 296 of the application for permit**

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PERFORMANCE REQUIREMENTS OF PROJECT - REVIEW CRITERION (77 IAC 1110.530(f)).

E) Criterion 1110.530 (g) - Assurances

The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the second year of operation after the project completion, the applicant will achieve and maintain the occupancy standards specified in 77 Ill. Adm. Code 1100 for each category of service involved in the proposal.

The applicants have provided the necessary assurance that the facility will achieve and maintain the occupancy standards specified for each category of service proposed. **See page 297-298 of the application for permit.**

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ASSURANCES REQUIREMENT - REVIEW CRITERION (77 IAC 1110.530(g)).

XI. Section 1110.3030 – Clinical Service Areas Other Than Categories of Service – Review Criteria



These criteria are applicable only to those projects or components of projects (including major medical equipment), concerning Clinical Service Areas (CSAs) that are not "Categories of Service", but for which utilization standards are listed in Appendix B, including: Surgery, Emergency Services and/or Trauma, Ambulatory Care Services (organized as a service), Diagnostic and Interventional Radiology/Imaging (by modality), Therapeutic Radiology, Laboratory, Pharmacy, Occupational Therapy/Physical Therapy, Major Medical Equipment.

A) Criterion 1110.3030 (b) - Need Determination

The applicant shall describe how the need for the proposed establishment was determined by documenting the following:

1) Service to the Planning Area Residents

A) Either:

- i) The primary purpose of the proposed project is to provide care to the residents of the planning area in which the proposed service will be physically located; or**
- ii) If the applicant service area includes a primary and secondary service area that expands beyond the planning area boundaries, the applicant shall document that the primary purpose of the project is to provide care to residents of the service area; and**

B) Documentation shall consist of strategic plans or market studies conducted, indicating the historical and projected incidence of disease or health conditions, or use rates of the population. The number of years projected shall not exceed the number of historical years documented. Any projections and/or trend analyses shall not exceed 10 years.

2) Service Demand

To demonstrate need for the proposed CSA services, the applicant shall document one or more of the indicators presented in subsections (b)(2)(A) through (D). For any projections, the number of years projected shall not exceed the number of historical years documented. Any projections and/or trend analyses shall not exceed 10 years.



- A) Referrals from Inpatient Base**
For CSAs that will serve as a support or adjunct service to existing inpatient services, the applicant shall document a minimum two-year historical and two-year projected number of inpatients requiring the subject CSA.
- B) Physician Referrals**
For CSAs that require physician referrals to create and maintain a patient base volume, the applicant shall document patient origin information for the referrals. The applicant shall submit original signed and notarized referral letters, containing certification by the physicians that the representations contained in the letters are true and correct.
- C) Historical Referrals to Other Providers**
If, during the latest 12-month period, patients have been sent to other area providers for the proposed CSA services, due to the absence of those services at the applicant facility, the applicant shall submit verification of those referrals, specifying: the service needed; patient origin by zip code; recipient facility; date of referral; and physician certification that the representations contained in the verifications are true and correct.
- D) Population Incidence**
The applicant shall submit documentation of incidence of service based upon IDPH statistics or category of service statistics.
- 3) Impact of the Proposed Project on Other Area Providers**
The applicant shall document that, within 24 months after project completion, the proposed project will not:

 - A) Lower the utilization of other area providers below the utilization standards specified in Appendix B.**
 - B) Lower, to a further extent, the utilization of other area providers that are currently (during the latest 12-month period) operating below the utilization standards.**
- 4) Utilization**



Projects involving the establishment of CSAs shall meet or exceed the utilization standards for the services, as specified in Appendix B. If no utilization standards exist in Appendix B, the applicant shall document its anticipated utilization in terms of incidence of disease or conditions, or historical population use rates.

Because this is a proposed new hospital the applicants provided projected utilization information because historical utilization was not available. Generally the projected patient volumes for clinical services other than categories of services were calculated based upon the applicants expected market share, the projected population growth in the market area and the historical experience at existing hospitals within the Centegra Health System. See Tables Six and Seven above. However because existing hospitals are not operating at State Board occupancy targets it would appear that the additional services would lower utilization at other area providers.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE CLINICAL SERVICE AREA OTHER THAN CATEGORY OF SERVICE - REVIEW CRITERION (77 IAC 1110.3030(b)).

XII. Section 1120.120 - Availability of Funds

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources.

The applicants have provided evidence of an "A-" rating from Standard and Poor's for Centegra Health System (the applicant) on the Illinois Health Facilities Authority 1998 revenue bonds and it's "A-" underlying rating on the Authority's 2002 revenue bonds issued by Centegra Health System.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE AVAILABILITY OF FUNDS CRITERION (77 IAC 1120.120).

XIII. Section 1120.130 - Financial Viability

The applicants are required to provide a financial viability ratio if proof of an "A" Bond rating has not been provided.



The applicants have provided evidence of an "A-" rating from Standard and Poor's for Centegra Health System (the applicant) on the Illinois Health Facilities Authority 1998 revenue bonds and it's "A-" underlying rating on the Authority's 2002 revenue bonds issued by Centegra Health System.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE FINANCIAL VIABILITY CRITERION (77 IAC 1110.130).

XIV. Section 1120.140 - Economic Feasibility

A) Criterion 1120.140 (a) - Reasonableness of Financing Arrangements

If the applicant does not have an "A bond rating the applicant shall document the reasonable of financing arrangements by providing a notarized statement attesting that the project will be funded by cash and securities or the project will be funded in total or in part by borrowing because a portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals or borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

The applicants have provided evidence of an "A-" rating from Standard and Poor's for Centegra Health System (the applicant) on the Illinois Health Facilities Authority 1998 revenue bonds and it's "A-" underlying rating on the Authority's 2002 revenue bonds issued by Centegra Health System.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF FINANCING ARRANGEMENTS CRITERION (77 IAC 1110.140 (a)).

B) Criterion 1110.140 (b) - Conditions of Debt Financing

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:



- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

The applicants have attested the selected form of debt financing for this project will be the issuance of bonds through the Illinois Health Finance Authority as well as the leasing of capital equipment. The applicants have attested the selected form of debt financing for the project will be at the lowest net cost available. In addition a portion of the project will involve the leasing of capital equipment and the expenses incurred with leasing are less costly than the purchase of new equipment.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF DEBT FINANCING CRITERION (77 IAC 1110.140 (b)).

- C) **Criterion 1110.140 (c) - Reasonableness of Project and Related Costs**
The applicant shall document that the estimated project costs are reasonable and shall document compliance preplanning costs, site survey, soil investigation fees and site preparation, construction and modernization costs per square foot, contingencies, architectural/engineering fees, all capitalized equipment not included in construction contracts building acquisition, net interest expense, and other estimated costs.

By statute only the clinical costs are being reviewed.

Preplanning Costs - These costs total \$1,729,015 and are 1.74% of new construction contingency and movable equipment. This appears reasonable when compared to the State Standard of 1.8%



Site Survey and Soil Investigation Site Preparation – These costs total \$1,070,937 and are 1.42% of construction and contingency costs. This appears reasonable when compared to the State Board Standard of 5%.

Offsite Work – These costs total \$5,356,644. The State Board does not have a standard for these costs.

New Construction Cost and Contingencies – These costs total \$75,392,411 or \$398.64 per gross square foot ("GSF"). This appears reasonable when compared to the State Board standard of \$403.39 GSF.

Contingencies – These costs total \$6,540,894 or 9.5% of construction costs. This appears reasonable when compared to the State Board standard of 10%.

Architectural/Engineering Fees – These costs total \$4,045,356 or 5.37% of construction and contingency fees. This appears reasonable when compared to the State Board standard of 3.59-5.39%.

Movable and Other Equipment – These costs total \$24,170,213. The State Board does not have a standard for these costs.

Bond Issuance Expense – These costs total \$1,477,016. The State Board does not have a standard for these costs.

Net Interest Expense During Construction – These costs total \$13,514,695. The State Board does not have a standard for these costs.

FMV of Leased Equipment – These costs total \$2,150,000. The State Board does not have a standard for these costs.

Other Costs to be Capitalized – These costs total \$193,030. The State Board does not have for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF PROJECT COSTS CRITERION (77 IAC 1110.140 (c)).

D) **Criterion 1110.140 (d) - Projected Operating Costs**

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years



following project completion. Direct costs means the fully allocated costs of salaries, benefits and supplies for the service.

These costs are \$1,772 per equivalent patient day. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECTED OPERATING COSTS CRITERION (77 IAC 1110.140 (d)).

E) Criterion 1110.140 (e) - Total Effect of the Project on Capital Costs

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

These costs are \$223 per equivalent patient day. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS CRITERION (77 IAC 1110.140(e)).

10-090 Centegra Hospital - Huntley

